

CITY OF BIRMINGHAM

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

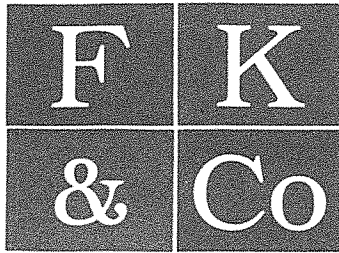
**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

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**City of Birmingham
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2016)</u>		
Willis Bruegge	Mayor	Jan 2018
Debbie Dorothy	Council Member	Jan 2020
Melvin Ash	Council Member	Jan 2018
Jim Meixner	Council Member	Jan 2020
Tina Walton	Council Member	Jan 2018
James Hewitt	Council Member	Jan 2020
 Sandra Yarnell	 City Clerk	 Indefinite
Ann Boley	Treasurer	Indefinite
<u>(After January 2016)</u>		
Willis Bruegge	Mayor	Jan 2018
Debbie Dorothy	Council Member	Jan 2020
Melvin Ash	Council Member	Jan 2018
Jim Meixner	Council Member	Jan 2020
Tina Walton	Council Member	Jan 2018
James Hewitt	Council Member	Jan 2020
 Sandra Yarnell	 City Clerk	 Indefinite
Ann Boley	Treasurer	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated November 21, 2014 on the City of Birmingham, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated November 21, 2014 and the current status of the City's implementation of the recommendations included in that report.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Birmingham and other parties to whom the City of Birmingham may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Birmingham during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

October 17, 2016

CITY OF BIRMINGHAM

Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated November 21, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

Current Status – Partially corrected. The City Clerk prints the monthly billing report to show all billings and prepares a daily recap of receipts which ties to the daily deposits. A monthly aging report is used to track collection efforts and shut-off activity. However, there is no indication that an independent review of a reconciliation is being performed.

- (C) Clerk's Report – A monthly Clerk's report, including a summary of revenues, disbursements, ending balances by fund and a budget vs actual comparison, is not prepared.

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Report on the Status of Periodic Examination Findings and Recommendations

Recommendation – The City Clerk should prepare a monthly Clerk’s report which includes a summary of receipts, disbursements and ending balances by fund. Also the Clerk’s report should show a budget vs actual comparison. The City Council should review and approve the Clerk’s report monthly.

Current Status – Not corrected. The recommendation is repeated.

(D) City Council Minutes – The following were identified:

- Two City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting tested were not published within fifteen days.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for some meetings tested.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa. In addition, the City should ensure the minutes, total disbursements from each fund and summary of all receipts are published as required.

Current Status – Partially corrected. City Council minutes for four meetings tested were published within fifteen days as required by the Code of Iowa. Minutes for four meetings tested were not signed and did not include total disbursements for each fund and a summary of all receipts, as required by the Code of Iowa.

(E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

(F) Official Depositories – A resolution naming official depositories has been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa, but the amount was not included.

CITY OF BIRMINGHAM

Report on the Status of Periodic Examination Findings and Recommendations

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

Current Status – Not corrected. The recommendation is repeated.

- (G) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed. The City should also maintain Special Revenue Funds for the Road Use Tax and Employee Benefits Tax Levy.

Current Status – Not corrected. The recommendation is repeated.

- (H) Separately Maintained Records – The Library and Fire Department maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

Current Status – Not corrected. The City does not receive monthly financial reports from the Library or the Fire Department.

- (I) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

CITY OF BIRMINGHAM

Report on the Status of Periodic Examination Findings and Recommendations

(J) Payroll – The following were identified:

- Timesheets tested did not include evidence of supervisory approval.
- We could not locate City Council approval of the wage rates for all employees tested.
- IRS Forms 941 reported the incorrect amount of wages subject to federal withholding.
- The City did not prepare any IRS Forms 1099 for the year ended December 31, 2013. We noted that the City should have issued a Form 1099.
- The Mayor's and City Council's wages were not set by ordinance.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. The City Council should approve pay rates for all City employees, with the approval documented in the City Council minutes. The City should ensure future IRS payroll tax forms are calculated and filed properly. Also the City should file IRS Forms 1099 when applicable. The City Council should also update the ordinance authorizing the wages for the Mayor and City Council.

Current Status – Partially corrected. Timesheets tested included evidence of supervisory approval. Approval of the City Clerk and Treasurer pay raise of \$0.50 per hour was documented in the February 1, 2016 City Council minutes; however, the rate per hour for each employee was not approved. For the period tested, the IRS Forms 941 reported the correct amount of wages subject to federal withholding. The City issued IRS Form 1099 for 2015 for lawn care. The Mayor's and City Council's wages were set by City Ordinance No. 0-2016-03 and passed and approved at the April 4, 2016 City Council meeting.

- (K) Certified Budget – There was no evidence in the City Council minutes that the budget was passed by resolution, as required by Chapter 384.16(5) of the Code of Iowa. There was also no evidence that the public notice regarding the budget amendment was published, as required by Chapter 384.18 of the Code of Iowa. In addition, the budget amendment amounts did not reconcile back to the original budget.

Recommendation – The City should ensure that all future budgets are passed by resolution, as required by Chapter 384.16(5) of the Code of Iowa and any future budget amendments are accurate and published, as required by Chapter 384.18 of the Code of Iowa.

CITY OF BIRMINGHAM

Report on the Status of Periodic Examination Findings and Recommendations

Current Status – Corrected. For the fiscal year ending June 30, 2016, the budget was passed by resolution as required by the Code of Iowa. The public hearing for the fiscal year 2016 budget amendment was published as required by the Code of Iowa.

- (L) **Annual Financial Report** – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City's records. In addition, the City did not report the correct budget amounts on the City's Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records. In addition, the City should ensure that the correct budget of the City is included on future Annual Financial Reports.

Current Status – Not corrected. The recommendation is repeated.

- (M) **Disbursements** – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for nine transactions tested could not be located. The City also paid "Christmas bonuses" as a gift to its employees and these payments were not recorded as additional compensation.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. In addition, all payments to City employees should be treated as compensation.

Current Status – Partially corrected. For the fifteen disbursement transactions tested, all were supported by invoices or other supporting documentation. However, three of the disbursements were not approved by the City Council for payment. The City did not give "Christmas bonuses" as gifts to employees during the time period tested.

- (N) **Sewer Revenue Bond** – The provisions of the sewer revenue bond require sufficient monthly transfers to be made to a separate sewer revenue bond sinking account for the purpose to making the note principal and interest payments when due. The City has not made the required transfers to this account.

Recommendation – The City should establish a sewer revenue bond sinking account and ensure monthly transfers are made to the sewer revenue bond sinking account as required.

Current Status – Not corrected. The recommendation is repeated.

CITY OF BIRMINGHAM

Report on the Status of Periodic Examination Findings and Recommendations

- (O) United States Department of Agriculture (USDA) Loan – The City has not adequately funded the Reserve Account and the Capital Replacement Account for the Child Care Center Revenue loan with the USDA.

The loan agreement with the USDA states that the loan will be “payable solely and only from the revenues derived from the operation of the Birmingham/Van Buren Community School District Child Care Center” (Center). Currently, the Center is not generating any revenue, and the City is repaying the loan to the USDA from City receipts and not from revenues derived from operations of the Center. Based on the requirements of the loan, it is questionable if the City has the legal obligation to repay the loans to the USDA from revenues other than from operations of the Center.

Recommendation – The City should consult with legal counsel to determine the propriety of whether the City has the legal obligation to repay the USDA from revenues other than from operations of the Center. Furthermore, until this issue is resolved, the City should adequately fund the Reserve Account and the Capital Replacement Account as required by the USDA.

Current Status – Partially corrected. The Reserve Account and the Capital Replacement Account for the Child Care Center Revenue loan with the USDA is being adequately funded by the City. The City is still repaying the loan to the USDA from City receipts and not from revenues derived from operations of the Center.